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SUBJECT: RESPONSE: IMPACT OF RISING FOOD PRICES - HONDURAS

REF: 08 STATE 39410

11. (U) Effect of rising food prices on agricultural commodity demand: none.

12. (U) Effect on supply: Currently certain items are in short supply. Because the economy in neighboring El Salvador is stronger, and because prices of some foodstuffs in Honduras are capped by the government, the Salvadorans are able to pay higher prices for some products than the Hondurans. As a result, some products are being shipped or smuggled across the border to El Salvador, which in turn causes spot shortages in Honduras. In the medium term the GOH is embarking on a program to increase production of basic grains, primarily corn, by subsidizing inputs and fining and threatening to expropriate the land of landowners who leave their lands fallow.

13. (SBU) Effect on domestic politics: The left-of-center government of President Manuel Zelaya has announced a plan to increase production of basic grains. The Honduran Congress has allocated USD 100 million to support the plan, supposedly to be financed with proceeds from the PetroCaribe deal, signed earlier this year to purchase fuel from Venezuela on concessional credit terms. PetroCaribe fuel deliveries are yet to commence, however, and it is doubtful the deal will yield that level of cash to the GOH this year. The proposed food plan came against the backdrop of nationwide protest marches April 17 "neoliberal" policies (e.g. the IMF and CAFTA). Demands included wage increases and price controls. Liberal Party leader Patricia Rodas, a confidant of President Zelaya, voiced support for the marchers on TV, denouncing "speculators" who "profit off the hunger of the people." The opposition (National) party has yet to make a strong response, although private sector representatives and conservative media have denounced Zelaya's proposals as "improvised," retrograde, counterproductive and violative of private property rights. Pro-government media are highlighting Venezuelan offers to help Honduras cope with the crisis, such as subsidized fertilizer and tractors and a regional agricultural plan that Venezuelan President Hugo Chavez will supposedly announce during his visit to Nicaragua in May. Conservative media note that Venezuela has a food supply problem of its own.

14. (U) Effect on the economy: The rising cost of imported fuel and food has contributed to a current account deficit that more than doubled last year to USD 1.2 billion, or nearly 10 percent of GDP. Food and fuel prices are also contributing to accelerating inflation. Consumer prices in March grew at more than an 11 percent annual rate. Full-year consumer price inflation was 8.9 percent in 2007 and 5.3 percent in 2006. Together with the economic downturn in the United States and profligate spending by Zelaya's populist government, these external price shocks constitute the

biggest threat to continued economic growth in Honduras, which has averaged more than 6 percent over the last two years. More than 40 percent of Hondurans live on less than USD 2 per day, so their ability to afford the food items in the official "basic basket" of necessities was tenuous even before food prices began to rise. In September 2007, the date of the last official household survey, the basic food basket for an adult cost USD 45 per month on average, USD 54 for urban households and USD 42 for rural households. Prevailing wages are about USD 4-6 a day. Between the third quarter of 2007 and the first quarter of 2008, prices at Tegucigalpa supermarkets increased 31 percent for dried beans, 33 percent for corn tortillas, 25 percent for white bread and 22 percent for rice. While many rural households (poverty in Honduras is concentrated in rural areas) grow at least some of their own food, for the urban poor and for those rural poor who don't, these price increases are a major concern. Additionally, and ironically, if the GOH program aimed at increasing production of basic grains becomes effective, it may reverse the trend, encouraged by donors, of farmers raising their incomes by diversifying into export crops, taking advantage of CAFTA and other preferential trade arrangements. Non-traditional crops on average return 10 times the income of basic grains. If the GOH policies succeed in increasing the supply of corn and beans, their prices will moderate, and those farmers who were persuaded or coerced into growing subsistence crops will suffer.

¶15. (U) Effect on the environment: None yet that we know of. However, if the GOH program to coerce landowners to put uncultivated land into production proceeds, this could put pressure on ecologically sensitive areas, reducing the amount of forests, grasslands and other habitat.

¶16. (U) Effect on host government policies: The GOH recently announced a plan to boost output of corn, rice, beans and sorghum by 14 million bushels by handing out seed and fertilizer to about 80,000 small farmers. The GOH claims an additional million acres will be planted with these grains by the end of this year. Experts are skeptical. In essence the GOH is providing the inputs for next year's harvest, since the banking system is reluctant to lend to small farmers. Far more ominously, the head of the National Agrarian Institute (INA) said the GOH would reactivate its 1970s land reform policy under which owners of uncultivated land could be fined or their land could be expropriated if they do not put it into production.

¶17. (U) Effect on post programs: None yet. However, USDA Food For Progress (FFP) funds were zeroed out for FY 2007 for all of Central America, affecting programs for calendar years 2008-2009. The PL 480 Title II Program (Food for Peace) is expected to end in FY 2009, and the RED-USAID program (agricultural diversification) is expected to end on September 30, 2008.

¶18. (U) Post requests talking points regarding USG response to the increase in worldwide food prices, ideally by the end of April, to counter ill-considered initiatives that are already proceeding locally and regionally.
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